

Date: January 30, 2004
To: Rosa Donahue, Sales Manager
From: Michelle Abbott & Carina Abernathy, MA CA
Sales Associates
Subject: Taylor Nursery Bid

As you know, Taylor Nursery has requested bids on a 25,000-pound order of our private-label fertilizer. Here is our analysis of Jenco's costs to fill this special order and a recommendation for the bidding price.

The total cost for manufacturing 25,000 pounds of the private-label brand for Taylor Nursery is \$44,075. This cost includes direct material, direct labor, and variable manufacturing overhead. Although our current equipment and facilities provide adequate capacity for processing this special order, the job will involve an excess in labor hours. The overtime labor rate has been factored into our costs.

The absolute minimum price that Jenco could bid for this product without losing money is \$44,075 (our cost). Applying our standard markup of 40% results in a price of \$61,705. Thus, you could reasonably establish a price anywhere within that range.

In making the final assessment, we advise you to consider factors relevant to this decision. Taylor Nursery has stated that this is a one-time order. Therefore, the effort to free this special order will not bring long-term benefits.

Taylor Nursery has requested bids from several competitors. One rival, Eclipse Fertilizers, is submitting a bid of \$60,000 on this order. Therefore, our recommendation is to slightly underbid Eclipse with a price of \$58,000, representing a markup of approximately 32%.

Please let us know if we can be of further assistance in your decision on the Taylor Nursery bid.